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UNCLAS ZAGREB 002153

SIPDIS

SENSITIVE

DEPT FOR EUR/SCE - KABUMOTO, BENEDICT

E.O. 12958: N/A

TAGS: [PREL](#) [PGOV](#) [RS](#) [HR](#)

SUBJECT: FM VISIT BOOSTS RUSSIA-CROATIA RELATIONS

1. (SBU) SUMMARY AND COMMENT: In an effort to shore up Moscow's influence in this Brussels-leaning capital, Russian FM Sergei Lavrov met with President Stjepan Mesic, PM Ivo Sanader, Speaker of Parliament Vladimir Seks, and FM Miomir Zuzul on his December 10 visit to Zagreb. Significant developments included agreement on the settlement of Soviet-era debt to Yugoslavia, discussions of promoting Russian investment in Croatia's energy and tourism sectors, groundwork for future anti-terror and anti-drug trafficking agreements, and interest in selling hardware to the Croatian military during its modernization to NATO standards. The two FMs agreed on a plan of consultation, but an expected visit by Russian President Vladimir Putin has not yet been scheduled. The GoC got what it wanted in Soviet debt repayment; the rest of the visit was primarily a scouting trip for Russian investment opportunities. END SUMMARY AND COMMENT.

PLANES, TURBINES, AND PIPELINES

2. (SBU) Lavrov's visit represented a potential warming of bilateral relations and, the GoC hopes, increased Russian interest in economic opportunities in Croatia, according to Vesna Klaic, MFA's director of bilateral relations with Eurasian countries. The last Russian FM to visit Croatia was Jevgeny Primakov in 1998, when Croatia's situation, both politically and economically, was far different. Lavrov expressed complete Russian support for Croatia's EU candidacy.

3. (SBU) Agreement on in-kind payments in the form of fire-fighting aircraft, power plant turbines, and gas pipelines to settle the full value of the \$185.7 million due Croatia from Soviet-era debt represented a particular achievement for the GoC. According to Klaic, standard Russian practice in other countries of the former Yugoslavia has been to negotiate a 25 percent reduction.

RUSSIA INTERESTED IN INVESTING IN TOURISM, MILITARY SALES

4. (U) Lavrov was particularly interested in advancing economic relations, and the GoC intends to pursue his offer to initiate a joint campaign to promote Russian investment in Croatia, particularly in the energy and tourism sectors. Discussions focused on the Druzba-Adria pipeline, a controversial project to carry oil from Russia to the port of Omisalj on the northern Croatian island of Krk. Moscow is extremely interested in this project, according to Lavrov, but respects Croatia's ongoing environmental review process and consideration of potential damage to Croatian tourism. Research is now complete for an environmental impact report, but the GoC is still assessing the information and has not yet released any findings.

5. (U) Just days after Lavrov's departure, the ruling Croatian Democratic Union (HDZ) presidential candidate Jadranka Kosor declared her opposition to Druzba-Adria (putting her slightly beyond the GoC's official neutrality) and environmental protestors organized rallies in Zagreb and several coastal cities against the project. President Mesic, on the other hand, remains open to the project and has called for an informed public debate, noting that oil tankers are already entering the Adriatic bound for Italian and Slovenian ports and no one is protesting against them.

6. (SBU) Lavrov also came to Zagreb looking for a piece of the military modernization pie. "Military and technical cooperation" discussions centered on Russian-made hardware that could serve the Croatian military's needs in upgrading to NATO standards.

ANTI-TERROR, COUNTER-DRUG AGREEMENTS ON HORIZON

7. (SBU) Lavrov and Zuzul began the groundwork for future bilateral agreements on preventing terrorism and drug trafficking and responding to civil disasters. MFA consular experts will go to Moscow in January to pursue to pursue accelerated visa procedures. According to Klaic, Russian police checks are slowing down visas for Croatian business travelers.

18. (U) The FMs also discussed proposals for intercity cooperation, including a planned sister city relationship between Kaliningrad and Rijeka. According to Lavrov, the GoR will establish Russian cultural center in Croatia and a Forum for Slavic Culture that will link all Slavic peoples.
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